

1993 NPA Subject Index

ACCOUNTING

Accounting for Income Taxes: New Standards, Thomas L. Leffelman, August, p. 28.

Accounting for S Corporation Distributions, William C. Hood, July, p. 28.

Alternative LIFO Method for Car Dealers (Debits & Credits), Michael Lynch and Larry Witner, March, p. 14.

As Easy As ABC: Using Activity Based Costing in Service Industries, Gordon D. Pirrong, February, p. 22.

Bank Reconciliations by Computer, Jack O. Williamson, December, p. 10.

Discovering Opportunities for a New Working Relationship Between Internal & External Auditors, Janet L. Colbert, January, p. 40.

Environmental Cost Liability, Richard Pitre, April, p. 28.

Evaluating Your Client's Debt Position, Joel G. Siegel and Frank Grippo, September, p. 42.

Go With the Flow: Using Ratios to Analyze Cash Flow Data, Robert E. Whitis and Keith W. Smith, August, p. 24.

The Imperfect Standard: Why All Cashflow Statements Still Aren't Created Equal, James H. Thompson, Michael E. Bitter, March, p. 18.

An Introduction: Preparing Personal financial Statements, Quinton Booker, January, p. 26.

Liability, Quality and Delusion (Guest Column), John W. Curtis, June, p. 42.

The New GAAP Hierarchy, James H. Thompson, October, p. 18.

The Power to Compete: The New Math of Precision Management, Lawrence M. Metzger, May, p. 14.

Reading the Warning Signs: Assessing the Risk of Litigation in Audit Engagements, James D. Stice, March, p. 22.

Reducing the Likelihood of Litigation (Debits & Credits), Larry Godwin, February, p. 16.

Super Accounting, Dorothy M. Fisher, August, p. 20.

Uncovering Hidden Assets, John F. Taylor and Kent N. Schneider, May, p. 18.

What a Headache!!! How Tax Reform Has Complicated AMT & ACE

Calculations, Christ A. Mantis, Larry R. Garrison, January, p. 14.

COMPUTERS

Bank Reconciliations by Computer, Jack O. Williamson, December, p. xx.

Get With The Program! The IRS ELF, Jim Petersen, October, p. 42.

ESTATE PLANNING

An Introduction: Preparing Personal financial Statements, Quinton Booker, January, p. 26.

Keeping It Together: How To Help Small Business Clients Keep Their Estates Intact, Philip R. Fink, February, p. 18.

Planning for Retirement Years: Smart Estate Planning Can Be Disastrous if Illness Strikes, Harley Gordon, January, p. 5.

Valuation of Minority Discounts in Closely-Held Businesses, James F. Hopson and William J. Sheehy, December, p. 30.

FINANCIAL PLANNING

Evaluating Your Client's Debt Position, Joel G. Siegel and Frank Grippo, September, p. 42.

Go With the Flow: Using Ratios to Analyze Cash Flow Data, Robert E. Whitis and Keith W. Smith, August, p. 24.

An Introduction: Preparing Personal financial Statements, Quinton Booker, January, p. 26.

Listen Carefully—You Might Have a Bond Call, George W. King, July, p. 37.

The Spousal Impoverishment Law (Guest Column), Harley Gordon, February, p. 33.

IRS

Current Tax Laws Increase Compliance Concerns, L. Stephen Cash, Thomas L. Dickens and Joseph M. Hagan, January, p. 18.

Doggone Dangerous! Independent Contractor Agreements, Walter B. Moore and Mark Turk, July, p. 14.

Get With The Program! The IRS ELF, Jim Petersen, October, p. 42.

Independent Contractor Safe Harbors: Not So Safe, Randall M. Miedaner and Joseph M. Hagan, July, p. 18.

IRS Offer in Compromise, James B. Rosa, June, p. 20.

IRS Requests For Extension: Think Before Signing, Neiland Cohen, February, p. 28.

Sham Scam? Are the IRS & the Tax Court Putting the Squeeze on Innocent Investors? Mark A. Segal, April, p. 16.

A Special Address by Commissioner of Internal Revenue, Margaret Richardson, November, p. 20.

LEGISLATION

The A Word: Where Do We Go With It? Theodore M. Bernardi, March, p. 30.

Damages After Burke: Tax-Free Claims, Mark A. Segal, October, p. 28.

The Spousal Impoverishment Law [Guest Column], Harley Gordon, February, p. 33.

LIABILITY

Environmental Cost Liability, Richard Pitre, April, p. 28.

Risk Management: Identifying a Company's Vulnerability, James H. Thompson, James S. Worthington and Lorie Wren, December, p. 18.

LITIGATION

Constructive Dividends & Inter-corporate Transfers: Mews Turns Back the Hands of Time, Edward J. Schneck and Hughlene A. Burton, August, p. 32.

Reading the Warning Signs: Assessing the Risk of Litigation in Audit Engagements, James D. Stice, March, p. 22.

Reducing the Likelihood of Litigation [Debits & Credits], Larry Godwin, February, p. 16.

SEC Loses in Trial Against Auditor Price Waterhouse [Guest Column], Quinton F. Seamons, March, p. 16.

Sham Scam? Are the IRS & the Tax Court Putting the Squeeze on Innocent Investors? Mark A. Segal, April, p. 16.

PRACTICE MANAGEMENT

Building a Premium-Dollar Niche

1993 NPA Subject Index

ACCOUNTING

Accounting for Income Taxes: New Standards, Thomas L. Leffelman, August, p. 28.

Accounting for S Corporation Distributions, William C. Hood, July, p. 28.

Alternative LIFO Method for Car Dealers (Debits & Credits), Michael Lynch and Larry Witner, March, p. 14.

As Easy As ABC: Using Activity Based Costing in Service Industries, Gordon D. Pirrong, February, p. 22.

Bank Reconciliations by Computer, Jack O. Williamson, December, p. 10.

Discovering Opportunities for a New Working Relationship Between Internal & External Auditors, Janet L. Colbert, January, p. 40.

Environmental Cost Liability, Richard Pitre, April, p. 28.

Evaluating Your Client's Debt Position, Joel G. Siegel and Frank Grippo, September, p. 42.

Go With the Flow: Using Ratios to Analyze Cash Flow Data, Robert E. Whitis and Keith W. Smith, August, p. 24.

The Imperfect Standard: Why All Cashflow Statements Still Aren't Created Equal, James H. Thompson, Michael E. Bitter, March, p. 18.

An Introduction: Preparing Personal financial Statements, Quinton Booker, January, p. 26.

Liability, Quality and Delusion (Guest Column), John W. Curtis, June, p. 42.

The New GAAP Hierarchy, James H. Thompson, October, p. 18.

The Power to Compete: The New Math of Precision Management, Lawrence M. Metzger, May, p. 14.

Reading the Warning Signs: Assessing the Risk of Litigation in Audit Engagements, James D. Stice, March, p. 22.

Reducing the Likelihood of Litigation (Debits & Credits), Larry Godwin, February, p. 16.

Super Accounting, Dorothy M. Fisher, August, p. 20.

Uncovering Hidden Assets, John F. Taylor and Kent N. Schneider, May, p. 18.

What a Headache!!! How Tax Reform Has Complicated AMT & ACE

Calculations, Christ A. Mantis, Larry R. Garrison, January, p. 14.

COMPUTERS

Bank Reconciliations by Computer, Jack O. Williamson, December, p. xx.

Get With The Program! The IRS ELF, Jim Petersen, October, p. 42.

ESTATE PLANNING

An Introduction: Preparing Personal financial Statements, Quinton Booker, January, p. 26.

Keeping It Together: How To Help Small Business Clients Keep Their Estates Intact, Philip R. Fink, February, p. 18.

Planning for Retirement Years: Smart Estate Planning Can Be Disastrous if Illness Strikes, Harley Gordon, January, p. 5.

Valuation of Minority Discounts in Closely-Held Businesses, James F. Hopson and William J. Sheehy, December, p. 30.

FINANCIAL PLANNING

Evaluating Your Client's Debt Position, Joel G. Siegel and Frank Grippo, September, p. 42.

Go With the Flow: Using Ratios to Analyze Cash Flow Data, Robert E. Whitis and Keith W. Smith, August, p. 24.

An Introduction: Preparing Personal financial Statements, Quinton Booker, January, p. 26.

Listen Carefully—You Might Have a Bond Call, George W. King, July, p. 37.

The Spousal Impoverishment Law (Guest Column), Harley Gordon, February, p. 33.

IRS

Current Tax Laws Increase Compliance Concerns, L. Stephen Cash, Thomas L. Dickens and Joseph M. Hagan, January, p. 18.

Doggone Dangerous! Independent Contractor Agreements, Walter B. Moore and Mark Turk, July, p. 14.

Get With The Program! The IRS ELF, Jim Petersen, October, p. 42.

Independent Contractor Safe Harbors: Not So Safe, Randall M. Miedaner and Joseph M. Hagan, July, p. 18.

IRS Offer in Compromise, James B. Rosa, June, p. 20.

IRS Requests For Extension: Think Before Signing, Neiland Cohen, February, p. 28.

Sham Scam? Are the IRS & the Tax Court Putting the Squeeze on Innocent Investors? Mark A. Segal, April, p. 16.

A Special Address by Commissioner of Internal Revenue, Margaret Richardson, November, p. 20.

LEGISLATION

The A Word: Where Do We Go With It? Theodore M. Bernardi, March, p. 30.

Damages After Burke: Tax-Free Claims, Mark A. Segal, October, p. 28.

The Spousal Impoverishment Law [Guest Column], Harley Gordon, February, p. 33.

LIABILITY

Environmental Cost Liability, Richard Pitre, April, p. 28.

Risk Management: Identifying a Company's Vulnerability, James H. Thompson, James S. Worthington and Lorie Wren, December, p. 18.

LITIGATION

Constructive Dividends & Inter-corporate Transfers: Mews Turns Back the Hands of Time, Edward J. Schneck and Hughlene A. Burton, August, p. 32.

Reading the Warning Signs: Assessing the Risk of Litigation in Audit Engagements, James D. Stice, March, p. 22.

Reducing the Likelihood of Litigation [Debits & Credits], Larry Godwin, February, p. 16.

SEC Loses in Trial Against Auditor Price Waterhouse [Guest Column], Quinton F. Seamons, March, p. 16.

Sham Scam? Are the IRS & the Tax Court Putting the Squeeze on Innocent Investors? Mark A. Segal, April, p. 16.

PRACTICE MANAGEMENT

Building a Premium-Dollar Niche

Practice, Robert B. Scott, Jr., September, p. 20.

Dishonesty Made Easy: The Importance of Internal Controls, Louis A. Orlando, September, p. 40.

Intra- or Inter-Marketing? Tammy A. Linn, September, p. 31.

It Can Happen Here: The Importance of Continuity Planning, Peggy D. Dwyer, Alan H. Friedberg and Karen S. McKenzie, June, p. 28.

Liability, Quality and Delusion [Guest Column], John W. Curtis, June, p. 42.

Not Quite Just in Time Inventories, Gene H. Johnson and James D. Stice, March, p. 26.

The Power to Compete: The New Math of Precision Management, Lawrence M. Metzger, May, p. 14.

The Purpose of Marketing, Julie Froning, September, p. 34.

Taming the Paper Tiger on the Road [Practice Pointers], Barbara Hemphill, February, p. 40.

Time Management for Accountants, Cindy D. Edmonds, September, p. 26.

PUBLIC POLICY

The A Word: Where Do We Go With It? Theodore M. Bernardi, March, p. 30.

Complying with the Americans with Disabilities Act: Costs and Tax Treatment, Hans J. Dykxhoorn and Kathleen E. Sinning, June, p. 32.

Small Business and the Clinton Agenda (Guest Column), Rep. John J. LaFalce, August, p. 8.

REAL ESTATE

Converting a Principal Residence to Rental Property, Edward A. Zurndorfer, June, p. 24.

Deducting Mortgage Points, Bruce M. Bird and Joseph H. McCraw, May, p. 24.

Leveraged Split Purchase: It's To Your Advantage to Understand the Gray! Rolf Auster, January, p. 30.

Nobody Home: U.S. Supreme Court Tightens Rules for Home Office Deduction, Sandra K. Miller, April, p. 20.

One Time Only: Excluding Capital Gain on Home Sale, Edward A. Zurndorfer, October, p. 24.

The Sun Won't Always Shine: Tax Aspects of Casualty Gains and Losses, Rolf Auster, May, p. 27.

What Does RRA '93 Mean to Real Estate? Randy D. Abeles, October, p. 38.

RISK MANAGEMENT

Beware! Revised Tax Preparer Penalties Come Into Full Swing, L. Craig Foltin, October, p. 14.

Liability, Quality and Delusion [Guest Column], John W. Curtis, June, p. 42.

Reading the Warning Signs: Assessing the Risk of Litigation in Audit Engagements, James D. Stice, March, p. 22.

Reducing the Likelihood of Litigation (Debits & Credits), Larry Godwin, February, p. 16.

Risk Management: Identifying a Company's Vulnerability, James H. Thompson, James S. Worthington and Lorie Wren, December, p. 18.

SEC Loses in Trial Against Auditor Price Waterhouse [Guest Column], Quinton F. Seamons, March, p. 16.

TAXATION

Accounting for Income Taxes: New Standards, Thomas L. Leffelman, August, p. 28.

Beware! Revised Tax Preparer Penalties Come Into Full Swing, L. Craig Foltin, October, p. 14.

Business Taxation Under RRA '93, Gary L. Green, Jr., November, p. 34.

Capturing the Earned Income Credit, Marvin J. Williams, April, p. 24.

Complying with the Americans with Disabilities Act: Costs and Tax Treatment, Hans J. Dykxhoorn and Kathleen E. Sinning, June, p. 32.

Constructive Dividends & Inter-corporate Transfers: Mews Turns Back the Hands of Time, Edward J. Schnee and Hughlene A. Burton, August, p. 32.

Converting a Principal Residence to Rental Property, Edward A. Zurndorfer, June, p. 24.

Current Tax Laws Increase Compliance Concerns, L. Stephen Cash, Thomas L. Dickens and Joseph M. Hagan, January, p. 18.

Damages After Burke: Tax-Free Claims, Mark A. Segal, October, p. 28.

Deducting Mortgage Points, Bruce M. Bird and Joseph H. McCraw, May, p. 24.

Doggone Dangerous! Independent Contractor Agreements, Walter B. Moore and Mark Turk, July, p. 14.

The Effect of RRA '93 on Individual Taxpayers, Jeffrey A. Lear, November, p. 28.

Farm Taxation: Selected Issues, Gary L. Maydew, December, p. 26.

Independent Contractor Safe Harbors: Not So Safe, Randall M. Miedaner

and Joseph M. Hagan, July, p. 18.

IRS Offer in Compromise, James B. Rosa, June, p. 20.

IRS Requests For Extension: Think Before Signing, Neiland Cohen, February, p. 28.

Keeping It Together: How To Help Small Business Clients Keep Their Estates Intact, Philip R. Fink, February, p. 18.

Leveraged Split Purchase: It's To Your Advantage to Understand the Gray! Rolf Auster, January, p. 30.

Nobody Home: U.S. Supreme Court Tightens Rules for Home Office Deduction, Sandra K. Miller, April, p. 20.

One Time Only: Excluding Capital Gain on Home Sale, Edward A. Zurndorfer, October, p. 24.

Problems Created by the Alternative Minimum Tax, Delbert W. Chumley, Jr. and Harold C. Smolinski, December, p. 22.

Sham Scam? Are the IRS & the Tax Court Putting the Squeeze on Innocent Investors? Mark A. Segal, April, p. 16.

A Special Address by Commissioner of Internal Revenue, Margaret Richardson, November, p. 20.

Summarizing the Changes of RRA '93, Arnold Cirtin, November, p. 24.

The Sun Won't Always Shine: Tax Aspects of Casualty Gains and Losses, Rolf Auster, May, p. 27.

Supporting Worthy Causes Through the Enhanced Deduction, Michael J.R. Hoffman, Karen S. McKenzie and S. Theodore Reiner, June, p. 16.

Surviving a Tax Audit Without Records, David J. Silverman, December, p. 34.

Uncovering Hidden Assets, John F. Taylor and Kent N. Schneider, May, p. 18.

Valuation of Minority Discounts in Closely-Held Businesses, James F. Hopson and William J. Sheehy, December, p. 30.

What a Headache!!! How Tax Reform Has Complicated AMT & ACE Calculations, Christ A. Mantis, Larry R. Garrison, January, p. 14.

What Does RRA '93 Mean to Real Estate? Randy D. Abeles, November, p. 38.

VALUATION

Valuation of Minority Discounts in Closely-Held Businesses, James F. Hopson and William J. Sheehy, December, p. 30.

1993 NPA Author Index

A

Abeles, Randy D., What Does RRA '93 Mean to Real Estate?, November, p. 38.

Auster, Rolf, Leveraged Split Purchase: It's To Your Advantage to Understand the Gray!, January, p. 30.

Auster, Rolf, The Sun Won't Always Shine: Tax Aspects of Casualty Gains and Losses, May, p. 27.

B

Bernardi, Theodore M., The A Word: Where Do We Go With It?, March, p. 30.

Bird, Bruce M., and Joseph H. McCraw, Deducting Mortgage Points, May, p. 24.

Bitter, Michael E., *see Thompson, James H.*

Booker, Quinton, An Introduction: Preparing Personal Financial Statements, January, p. 26.

Burton, Hughlene A., *see Schnee, Edward J.*

C

Cash, L. Stephen, Thomas L. Dickens and Joseph M. Hagan, Current Tax Laws Increase Compliance Concerns, January, p. 18.

Chumley, Delbert W., Jr., and Harold C. Smolinski, Problems Created by the Alternative Minimum Tax, December, p. 22.

Cirtin, Arnold, Summarizing the Changes of RRA '93, November, p. 24.

Cohen, Neiland, IRS Requests For Extension: Think Before Signing, February, p. 28.

Colbert, Janet L., Discovering Opportunities for a New Working Relationship Between Internal & External Auditors, January, p. 40.

Curtis, John W., Liability, Quality and Delusion (Guest Column), June, p. 42.

D

Dickens, Thomas L., *see Cash, L. Stephen.*

Dwyer, Peggy D., Alan H. Friedberg and Karen S. McKenzie, It Can Happen Here: The Importance of Continuity Planning, June, p. 28.

Dykxhoorn, Hans J., and Kathleen E. Sinning, Complying with the Americans with Disabilities Act: Costs and Tax Treatment, June, p. 32.

E

Edmonds, Cindy D., Time Management for Accountants, September, p. 26.

F

Fink, Philip R., Keeping It Together: How To Help Small Business Clients Keep Their Estates Intact, February, p. 18.

Fisher, Dorothy M., SuperAccounting, August, p. 20.

Foltin, L. Craig, Beware! Revised Tax Preparer Penalties Come Into Full Swing, October, p. 14.

Friedberg, Alan H., *see Dwyer, Peggy D.*

Froning, Julie, The Purpose of Marketing, September, p. 34.

G

Garrison, Larry R., *see Mantis, Christ A.*

Godwin, Larry, Reducing the Likelihood of Litigation (Debits & Credits), February, p. 16.

Gordon, Harley, Planning for Retirement Years: Smart Estate Planning Can Be Disastrous if Illness Strikes, January, p. 5.

Gordon, Harley, The Spousal Impoverishment Law (Guest Column), February, p. 33.

Green, Gary L., Jr., Business Taxation Under RRA '93, November, p. 34.

Grippio, Frank, *see Siegel, Joel G.*

H

Hagan, Joseph M., *see Cash, L. Stephen.*

Hagan, Joseph M., *see Miedaner, Randall M.*

Hemphill, Barbara, Taming the Paper Tiger on the Road (Practice Pointers), February, p. 40.

Hoffman, Michael J. R., Karen S. McKenzie and S. Theodore Reiner, Supporting Worthy Causes Through the Enhanced Deduction, June, p. 16.

Hood, William C., Accounting for S Corporation Distributions, July, p. 28.

Hopson, James F. and William J. Sheehy, Valuation of Minority Discounts in Closely-Held Businesses, December, p. 30.

I

Johnson, Gene H., and James D. Stice, Not Quite Just in Time Inventories, March, p. 26.

K

King, George W., Listen Carefully—You Might Have a Bond Call, July, p. 37.

L

LaFalce, Rep. John J., Small Business and the Clinton Agenda (Guest Column), August, p. 8.

Lear, Jeffrey A., The Effect of RRA '93 on Individual Taxpayers, November, p. 28.

Leffelman, Thomas L., Accounting for Income Taxes: New Standards, August, p. 28.

Linn, Tammy A., Intra- or Inter-Marketing?, September, p. 31.

Lynch, Michael, and Larry Witner, Alternative LIFO Method for Car Dealers (Debits & Credits), March, p. 14.

M

Mantis, Christ A., and Larry R. Garrison, What a Headache!!! How Tax Reform Has Complicated AMT & ACE Calculations, January, p. 14.

Maydew, Gary L., Farm Taxation: Selected Issues, December, p. 26.

McCraw, Joseph H., *see Bird, Bruce M.*

McKenzie, Karen S., *see Dwyer, Peggy D.*

McKenzie, Karen S., *see Hoffman, Michael J. R.*

Metzger, Lawrence M., The Power to Compete: The New Math of Precision Management, May, p. 14.

Miedaner, Randall M. and Joseph M. Hagan, Independent Contractor Safe Harbors: Not So Safe, July, p. 18.

Miller, Sandra K., Nobody Home: U.S. Supreme Court Tightens Rules for Home Office Deduction, April, p. 20.

Moore, Walter B., and Mark Turk, Doggone Dangerous! Independent Contractor Agreements, July, p. 14.

O
Orlando, Louis A., Dishonesty Made Easy: The Importance of Internal Controls, September, p. 40.

P
Petersen, Jim, Get With The Program! The IRS ELF, October, p. 42.

Pirrong, Gordon D., As Easy As ABC: Using Activity Based Costing in Service Industries, February, p. 22.

Pitre, Richard, Environmental Cost Liability, April, p. 28.

R
Reiner, S. Theodore, *see Hoffman, Michael J. R.*

Richardson, Margaret, A Special Address by Commissioner of Internal Revenue, November, p. 20.

Rosa, James B., IRS Offer in Compromise, June, p. 20.

S
Schnee, Edward J., and Hughlene A. Burton, Constructive Dividends & Intercompany Transfers: Mews Turns Back the Hands of Time, August, p. 32.

Schneider, Kent N., *see Taylor, ohn F.*

Scott, Robert B., Jr., Building a Premium-Dollar Niche Practice, September, p. 20.

Seamons, Quinton F., SEC Loses in Trial Against Auditor Price Waterhouse (Guest Column), March, p. 16.

Segal, Mark A., Damages After Burke: Tax-Free Claims, October, p. 28.

Segal, Mark A., Sham Scam? Are the IRS & the Tax Court Putting the Squeeze on Innocent Investors?, April, p. 16.

Sheehy, William J., *see Hopson, James F.*

Siegel, Joel G., and Frank Grippo, Evaluating Your Client's Debt Position, September, p. 42.

Silverman, David J., Surviving a Tax Audit Without Records, December, p. 34.

Sinning, Kathleen E., *see Dykxhoorn, Hans J.*

Smith, Keith W., *see Whitis, Robert E.*

Smolinski, Harold C., *see Chumley, Delbert W., Jr.*

Stice, James D., Reading the Warning Signs: Assessing the Risk of Litigation in Audit Engagements, March, p. 22.

Stice, James D., *see Johnson, Gene H.*

T
Taylor, John F., and Kent N. Schneider, Uncovering Hidden Assets, May, p. 18.

Thompson, James H., and Michael E. Bitter, The Imperfect Standard: Why All Cashflow Statements Still Aren't Created Equal, March, p. 18.

Thompson, James H., The New GAAP Hierarchy, October, p. 18.

Thompson, James H., James S. Worthington and Lorie Wren, Risk Management: Identifying a Company's Vulnerability, December, p. 18.

Turk, Mark, *see Moore, Walter B.*

W
Whitis, Robert E., and Keith W. Smith, Go With the Flow: Using Ratios to Analyze Cash Flow Data, August, p. 24.

Williams, Marvin J., Capturing the Earned Income Credit, April, p. 24.

Williamson, Jack O., Bank Reconciliations by Computer, December, p. 10.

Witner, Larry, *see Lynch, Michael.*

Worthington, James S., *see Thompson, James H.*

Wren, Lorie, *see Thompson, James H.*

Z
Zurndorfer, Edward A., Converting a Principal Residence to Rental Property, June, p. 24.

Zurndorfer, Edward A., One Time Only: Excluding Capital Gain on Home Sale, October, p. 24.

Alternative Minimum Tax

(continued from page 24)

Foreign credit is computed in a similar manner for regular tax but is limited to 90% of tentative tax before the application of the foreign credit and the AMT NOL.¹²

[Editor's note: Changes in the AMT rate structure for individual taxpayers resulting from RRA '93 include the following AMT rate increases, effective for tax years beginning after December 31, 1992: 26% of the first \$175,000 of AMT income, and 28% above \$175,000.]

Conclusion

Adjustments required for AMT calculation involving ACE will force corporations to pay tax on income that previously was specifically excluded from income tax. The benefits of tax-exempt interest (providing a reduction in the cost of financing in the public sector) and the dividends-received exclusion (eliminating double taxation of corporate income) are being negated. The result of these actions will discourage corporations from investing in municipal bonds as well as corporate securities that pay dividends.

In addition to the obvious problems of paying taxes on tax-free income, the AMT has created the need for a third set of records in addition to the book and tax records. ■

References

¹ I.R.C. Section 55(b)(1)(A)

² I.R.C. Section 56(g)(3)

³ I.R.C. Section 56(f)(1)

⁴ I.R.C. Section 56(g)

⁵ I.R.C. Section 56(g)(4)(A)

⁶ I.R.C. Section 56(g)(4)(B)

⁷ I.R.C. Section 57

⁸ I.R.C. Section 56(d)(2)(B)

⁹ I.R.C. Section 55(d)

¹⁰ I.R.C. Section 53(c)

¹¹ I.R.C. Section 59(a)(1)

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